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SUBJECT: CONCLUDING THE SAGA OF UKRAINE'S MOST TROUBLED BANK

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SENSITIVE BUT UNCLASSIFIED, NOT FOR INTERNET DISTRIBUTION

¶1. (SBU) Summary. Nadra Bank, the much troubled Ukrainian financial institution, may be close to finalizing a deal with at least 75% of its external creditors, who hold \$570 million of Nadra's total debt. Nonetheless, the Ukrainian government is giving signals that it could be changing tack and may not recapitalize the bank. Nadra's liquidation would likely lead to a purchase and assumption arrangement, either with a private investor or with a state-owned bank akin to the mechanism employed by Rodovid with now defunct Ukrprombank. The former arrangement would be unprecedented in scope, while the latter would add more shaky liabilities and distressed assets to the GOU's balance sheet. End summary.

NADRA RESTRUCTURING STALLED...

¶2. (SBU) Ministry of Finance director for bank recapitalization Teimur Bagirov said publicly that negotiations with Nadra's foreign creditors had stalled. Bagirov suggested it was not possible for the Cabinet of Ministers to make a final decision on whether to recapitalize the bank. He noted that the Cabinet had devised a "Plan B" to liquidate Nadra in the event its external debt remained outstanding. Nadra's liabilities and viable assets would be transferred to a state-owned bank, similar to the process currently underway with Rodovid and Ukrprombank.

...OR CONTINUING APACE?

¶3. (SBU) However, NBU deputy governor Volodymyr Krotiuk told journalists that roughly 70% of Nadra's total foreign debt (\$870 million) had been restructured. This figure was corroborated by a senior Nadra official, who indicated to us that the bank had nearly restructured 75% of its foreign debt. After the 75% threshold had been reached, according to Krotiuk, the Cabinet of Ministers would decide whether to nationalize the bank.

¶4. (SBU) Nadra officials confirmed to Econoff that the bank was in "active conversations" with its creditor committee, comprised of Commerzbank, Standard Bank, OTP Bank, Fortis, and Cargill Financial, among others. The Nadra representatives said there were differing opinions among creditors about terms of a negotiated deal, with some looking for "special conditions" that Nadra had determined were "not realizable". A letter outlining proposed terms had been sent to the creditor committee and likely would be answered by November 20 or early the following week.

¶5. (SBU) A senior London-based representative from Commerzbank told us that the creditor committee had nearly reached an internal

agreement on the Nadra debt restructuring. Fellow bankers were cognizant that Nadra's non-performing loans (NPLs) and a "massive" outflow of deposits indicated further credit deterioration, making its speedy resolution a necessity for economic and political reasons. Ukrainian authorities were playing a "wild card" with Nadra over nationalization. Commerzbank viewed the possibility that an investor would buy Nadra as "science fiction".

POSSIBLE SUITORS FOR NADRA

¶16. (SBU) Nonetheless, Nadra temporary administrator Valentina Zhukovska told the media that the bank was entertaining three offers, without disclosing any suitors.

¶17. (SBU) Stockholm-based East Capital, a private equity fund that holds a 6.6% share of Nadra, confirmed it had considered a further investment in Nadra. According to East Capital senior advisor Margot Jacobs, any potential deal would be determined by the GOU's plans for recapitalization.

¶18. (SBU) A second foreign investor hinted that it also had designs on a major Nadra investment. Platinum Bank -- owned by Horizon Capital, a U.S. managed private equity firm in Kyiv -- announced its willingness to take over Nadra's liabilities and viable assets in the event Nadra was liquidated. Platinum Bank chairman Greg Krasnov told a public forum that Platinum's shareholders were particularly interested in Nadra's 700 retail branches.

¶19. (SBU) Separately, a Horizon Capital representative confirmed to us that Platinum would attempt to expand its untarnished brand, thereby allowing Horizon to "deploy piles of cash" that had been raised prior to the crisis. That Horizon and Platinum had approached Nadra was confirmed to us by a source close to Bagirov, who is allegedly being used as an intermediary between Prime

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Minister Tymoshenko and President Yushchenko and their respective allies in the Ministry of Finance and the NBU (reftel).

¶10. (SBU) A purchase and assumption arrangement with East Capital, Platinum Bank, or a third undisclosed party would represent the first private sector resolution of a failed bank in Ukraine since the start of the crisis.

RAPID DETERIORATION AT NADRA

¶11. (SBU) In addition to debt restructuring talks, Nadra's chief concern was a rapid deterioration of its loan portfolio, with creditors still broadly refusing to make monthly payments. Nadra officials would not comment on the overall level of non-performing loans, but said the bank did not have enough capital to continue operating without outside assistance.

¶12. (U) Nadra was taken under temporary administration on February 11. It is now Ukraine's eleventh largest bank, with total household deposits of UAH 7.9 billion (\$970 million).

SNAPSHOT OF CREEPING STATE CONTROL

¶13. (U) With the nationalization and recapitalization of Ukrgasbank, Bank Kyiv, and Rodovid in 2009, Ukraine's banking sector is now 28% state owned. The government had already infused the three newest state banks with UAH 9.5 billion (\$1.16 billion) before its decision this week to add another UAH 5.69 billion (\$700 million) in statutory capital to Rodovid to ease its assumption of Ukrprombank's liabilities.

¶14. (U) The three newly nationalized banks have signaled a need for more capital "top-offs" of up to UAH 2 billion (\$245 million). Furthermore, since the beginning of Ukraine's financial crisis, the GOU has added UAH 15.4 billion (\$1.9 billion) in capital to the Soviet-era state savings bank (Oshchadbank) and the Export-Import Bank of Ukraine (Ukrexim).

¶15. (SBU) Ukrainian banks have universally suffered from deteriorating loan portfolios since the beginning of the crisis, with banks under temporary administration being particularly hard hit by a lack of public confidence.

COMMENT

¶16. (SBU) It was alleged that Platinum's previous bid for Ukrprombank had been turned down, in favor of newly nationalized Rodovid, to protect vested political interests. The Ukrainian government may no longer have the means to offer such a generous liquidation package to cover Nadra's depositors, even though Nadra has comparatively much better assets than Ukrprombank. With authorities giving mixed messages over the bank's progress on debt restructuring, and with time running out for a resolution to protect depositors before the presidential election, Nadra's saga may soon be coming to a dramatic conclusion.

PETTIT